

PAYSON CITY CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2005

PAYSON CITY CORPORATION
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Payson, Utah

December 14, 2005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of and for the year ended, June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Payson City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2005, on our consideration of the Payson City's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Payson City's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Payson City, we offer readers of the Payson City financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. It is designed to provide an overview of the City's financial activity. It is also intended to assist the reader in focusing on significant financial issues including identifying changes in the City's financial position (its ability to address the next and subsequent years challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the Transmittal Letter and the City's financial statements.

Because the City implemented new reporting standards last fiscal year with significant changes in content and structure, comparisons should be more meaningful and will go further in explaining the City's financial position and result of operations.

FINANCIAL HIGHLIGHTS

- The total net assets of Payson City increased by 3,026,705 from \$41,116,700 to 44,143,405. Of this, the governmental net assets increased by \$2,085,334 to 20,779,325 and the business-type net assets increased by \$941,371 to \$23,364,080.
 - In the Governmental funds, the increase is mostly made up of increases in fixed assets. There was the completion of the Police Building Remodel \$438,740, a generator for the City Building \$47,630, and a new Swimming Pool Boiler for \$27,200. New equipment included 2 new Police Cars for \$74,245, a Polaris Ranger for the Fire Department at \$9,534, a Building Maintenance Truck for \$23,500, and miscellaneous Fire Equipment for \$129,480. The Fire Station also needed a new furnace upgrade for \$6,657. There were also miscellaneous Park and Road Improvements.
 - Business-type fund net asset increases were also mainly in the fixed asset category with the Electric Department Building & Power Plant Improvements of \$291,424. We also began a Water meters upgrade consisting of \$181,160 and purchased Water and Lateral 20 for \$291,540 and the completion of the Sewer Plant Update.
 - We also obtained Landfill Property & a Gravel Pit with a trade for City Property (Pit Commercial Property)
- The total net assets of \$44,143,405 is made up of \$38,464,774 in capital assets net of related debt and \$5,678,631 in other net assets.
- The General Fund (the primary operating fund) had an increase in its fund balance of \$53,943. We again have too much in the General Fund balance, but have budgeted projects in the current year to bring that down within the State limits.

- Total long-term liabilities of the City increased to \$24,930,362 with the issuance of \$9,445,000 Water Revenue and Refunding Bonds and Landfill Postclosure Liability.

REPORTING THE CITY AS A WHOLE

The discussion and analysis is intended to serve as an introduction to Payson City's basic financial statements. Payson City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Payson City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Payson City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Payson City is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Payson City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Payson City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

- **Governmental funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending.

These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund. Also listed separately are the Special Revenue Funds and the Capital Project Funds. The balance of the governmental funds are determined to be non-major and are included in the combining statements within this report.

- Proprietary funds – Payson City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Payson City uses enterprise funds to account for its Water Utility, Electric Utility, Sewer Utility, Solid Waste Utility, Storm Drainage Utility, Golf Course Operations, and Ambulance. Internal service funds are an accounting device used to accumulate and allocate costs internally among Payson City's various functions. The City is using one internal service fund for maintenance of its vehicles and equipment. Because this service primarily benefit governmental activities, it has been included with governmental activities in the government-wide financial statements.

As determined by generally accepted accounting principles, the Electric, Water, and Sewer enterprise funds satisfy the criteria for major fund classification. The other enterprise funds are classified as non-major and are included in the combining statements within this report.

- Fiduciary funds – These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are reflected in the government-wide financial statements and are included with the non-major governmental funds. The accounting method used for these funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Payson City, assets exceed liabilities by \$44,143,405.

By far the largest portion of Payson City's net assets (86%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes Payson City's Net Assets:

Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | \$ 3,379,514 | \$ 1,939,078 | \$ 6,471,978 | \$ 7,001,299 | \$ 9,851,492 | \$ 8,940,377 |
| Capital assets | 24,711,485 | 24,453,817 | 37,843,326 | 37,212,457 | 62,554,811 | 61,666,274 |
| Total assets | 28,090,999 | 26,392,895 | 44,315,304 | 44,213,756 | 72,406,303 | 70,606,651 |
| Other liabilities | 1,837,107 | 1,507,379 | 1,339,352 | 1,313,329 | 3,176,459 | 2,820,708 |
| Long-term liabilities outstanding | 5,474,566 | 6,722,491 | 19,611,872 | 20,477,718 | 25,086,438 | 27,200,209 |
| Total liabilities | 7,311,673 | 8,229,870 | 20,951,224 | 21,791,047 | 28,262,897 | 30,020,917 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 19,236,919 | 17,731,326 | 19,227,855 | 17,512,330 | 38,464,774 | 35,243,656 |
| Restricted | 533,563 | (48,804) | 3,188,630 | 3,018,538 | 3,722,193 | 2,969,734 |
| Unrestricted | 1,008,843 | 480,503 | 947,595 | 1,891,841 | 1,956,438 | 2,372,344 |
| Total net assets | \$ 20,779,325 | \$ 18,163,025 | \$ 23,364,080 | \$ 22,422,709 | \$ 44,143,405 | \$ 40,585,734 |

The following table summarizes Payson City's Change in Net Assets:

Changes in Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|-------------------------------|-------------------------|-----------|--------------------------|------------|------------|------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | 1,117,286 | 1,094,603 | 14,505,889 | 12,741,345 | 15,623,175 | 13,835,948 |
| Operating grants and contribs | 294,295 | 362,101 | 0 | | 294,295 | 362,101 |
| Capital grants and contribs | 639,121 | 1,004,203 | 819,246 | 843,563 | 1,458,367 | 1,847,766 |
| General revenues: | | | | | | |
| Property taxes | 1,048,846 | 1,059,551 | 0 | | 1,048,846 | 1,059,551 |
| General sales and use tax | 1,826,194 | 1,709,095 | | | 1,826,194 | 1,709,095 |
| Motor Vehicle Taxes | 122,252 | 139,128 | | | 122,252 | 139,128 |
| Utility Tax | 779,654 | 727,092 | 0 | | 779,654 | 727,092 |
| Other Taxes | 294,687 | 101,683 | | | 294,687 | 101,683 |
| Impact Fees | 432,965 | 426,421 | 918,419 | 1,075,140 | 1,351,384 | 1,501,561 |
| Gain (Loss) on Sale of Assets | | 3,529 | 288,822 | 548,781 | 288,822 | 552,310 |
| Special Assessments | 131,870 | 132,050 | | | 131,870 | 132,050 |

| | | | | | | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Unrestricted investment earnings | 66,964 | 27,310 | 113,492 | 110,234 | 180,456 | 137,544 |
| Transfers | 2,736,365 | 1,600,819 | (3,151,049) | (2,007,553) | (414,684) | (406,734) |
| Other | 82,642 | 74,427 | | | 82,642 | 74,427 |
| Total revenues | <u>9,573,141</u> | <u>8,462,012</u> | <u>13,494,819</u> | <u>13,311,510</u> | <u>23,067,960</u> | <u>21,773,522</u> |
| Expenses: | | | | | | |
| General government | 2,623,888 | 2,225,546 | | | 2,623,888 | 2,225,546 |
| Public safety | 2,072,252 | 1,899,761 | | | 2,072,252 | 1,899,761 |
| Highways and public works | 870,504 | 717,699 | | | 870,504 | 717,699 |
| Parks and recreation | 1,420,543 | 1,083,574 | | | 1,420,543 | 1,083,574 |
| Economic Development | 302,670 | 293,091 | | | 302,670 | 293,091 |
| Cemetery | 85,485 | 179,256 | | | 85,485 | 179,256 |
| Interest on long-term debt | 112,465 | 359,205 | | | 112,465 | 359,205 |
| Water | | | 1,258,298 | 1,578,858 | 1,258,298 | 1,578,858 |
| Electric | | | 8,254,189 | 6,718,014 | 8,254,189 | 6,718,014 |
| Sewer | | | 1,066,035 | 1,126,469 | 1,066,035 | 1,126,469 |
| Solid Waste | | | 799,276 | 812,885 | 799,276 | 812,885 |
| Golf | | | 773,874 | 821,479 | 773,874 | 821,479 |
| Storm Drain | | | 205,199 | 322,468 | 205,199 | 322,468 |
| Ambulance | | | 196,577 | 210,462 | 196,577 | 210,462 |
| Total expenses | <u>7,487,807</u> | <u>6,758,132</u> | <u>12,553,448</u> | <u>11,590,635</u> | <u>20,041,255</u> | <u>18,348,767</u> |
| Increase in net assets | 2,085,334 | 1,703,880 | 941,371 | 1,720,875 | 3,026,705 | 3,424,755 |
| Net assets – beginning | <u>18,693,991</u> | <u>16,990,111</u> | <u>22,422,709</u> | <u>20,701,834</u> | <u>41,116,700</u> | <u>37,691,945</u> |
| Net assets – ending | <u>20,779,325</u> | <u>18,693,991</u> | <u>23,364,080</u> | <u>22,422,709</u> | <u>44,143,405</u> | <u>41,116,700</u> |

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spend able resources. Such information is useful in assessing the City's financing requirements.

As of June 30, 2005, the City's governmental funds (General, Debt Service, & Special Revenue) reported combined fund equity of \$1,191,936. This represents an increase of \$1,168,582 from last year's ending balances. The General Fund balance covers the deficiency of revenues under expenditures in the Redevelopment Agencies and Capital Projects Funds. Part of this increase was the inclusion of the Permanent Trust Funds in the Government type Activities

The General Fund is the chief operating fund of the City. All activities, which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses, are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 65% of total general fund revenues. The largest element of taxes is sales tax as it has been for the last several years, and continues to increase. It represents 49% of total tax revenues and represents \$1,826,194 of total general fund revenues.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$7,148,200 to a final budget of \$7,321,054 to accommodate additional expenditures needed in various departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – Payson City's investment in capital assets for all activities as of June 30, 2005, amounts to \$44,143,405 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment.

Major capital asset events during the this fiscal year included the following:

- Completion of the Police Building Remodel \$438,740
- Generator for City Building \$47,630
- 2 new Police Cars \$74,245
- Other Vehicles (Fire Polaris Ranger \$9,9534), (Building Maintenance Truck \$23,500), (Snowplow & Blade \$9,090), (Electric Dept Pickup \$21,900), (Mule for Sewer Dept. \$6,169)
- Fire Station Furnace \$6,657
- Miscellaneous Fire Equipment \$129,480
- Ambulance Bay Door \$6,355
- Upgrade for Ambulance De-Fib Machines \$6,935
- Pool Boiler \$27,200
- Obtained Landfill Property & Gravel Pit with a trade for City Property (Pit Commercial Property)
- Electric Department Building & Power Plant Improvements \$291,424
- Christmas Lights \$11,185
- Ball Park Sound System \$6,500
- Miscellaneous Street & Storm Drain Improvements (Church Meadows Subdivision \$117,623 Street / \$126,590 Storm Drain), (Storm Drain System Improvements \$276,414)
- Electric System Improvements \$222,706, Church Meadows Electric Improvements \$26,000
- Miscellaneous Park Improvements: 800 S. Corridor & McMullin Park Improvements \$7,137, Whiteman/Hollow Park Playground Equipment

- \$21,073, Peteetneet & Hideaway Park Playground Equipment \$18,154, Corridor Enhancement \$7,167
- Water Line Improvements \$34,949 & Church Meadows Subdivision Water Improvements \$102,769
- Upgrade Water Meters \$181,160
- Water Purchase/Lateral 20 \$291,540
- Church Meadows Subdivision Sewer Improvements \$44,418
- Sewer Re-Use Station \$440,620

The following table summarizes Payson City's changes in Capital Assets:

Capital Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Invested in capital assets, net | | | | | | |
| Land | 3,800,477 | 3,794,477 | 7,040,381 | 7,040,381 | 10,840,858 | 10,834,858 |
| Building | 1,146,257 | 1,197,743 | 638,070 | 375,126 | 1,784,327 | 1,572,869 |
| Equipment | 1,273,377 | 1,278,228 | 1,152,942 | 1,426,153 | 2,426,319 | 2,704,381 |
| Water Shares | | | 198,400 | 198,400 | 198,400 | 198,400 |
| Improvements | 4,114,349 | 3,923,967 | 28,813,533 | 27,892,605 | 32,927,882 | 31,816,572 |
| Infrastructure | 14,377,025 | 14,259,402 | | | 14,377,025 | 14,259,402 |
| Total net assets | <u>24,711,485</u> | <u>24,453,817</u> | <u>37,843,326</u> | <u>36,932,665</u> | <u>62,554,811</u> | <u>61,386,482</u> |

The following table summarizes Payson City's Changes in Debt:

Debt

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Bonds Payable | 4,241,000 | 4,818,000 | 18,140,000 | 19,018,872 | 22,381,000 | 23,836,872 |
| Notes Payable | 19,366 | 51,904 | | | 19,366 | 51,904 |
| Capital Lease | 1,214,200 | 1,616,148 | 475,471 | 681,256 | 1,689,671 | 2,297,404 |
| Accrued Compensated Absences | 407,505 | 388,671 | 339,902 | 366,817 | 747,407 | 755,488 |
| Water Share Liability | | | 134,843 | 128,078 | 134,843 | 128,078 |
| Total net assets | <u>5,882,071</u> | <u>6,874,723</u> | <u>19,090,216</u> | <u>20,195,023</u> | <u>24,972,287</u> | <u>27,069,746</u> |

Long-term debt – At June 30, 2005, the City had total bonded debt outstanding of \$24,090,037. Of this the only amount considered to be general obligation debt backed by the full faith and credit of the City is the ball field line of credit for \$1,040,030 and the Pit SID, of which Payson City put in infrastructure, for \$2,195,000. The State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for Utah County (of which Payson is a part of) was 3.9% compared with a state unemployment rate of 4.7% and a national rate of 5.0%. Utah County's rate in 2003 was 4.3% (Source: Utah Dept of Workforce Services). Utah County's rate in 2004 was also 3.9%
- The General Fund budget for fiscal year ending June 30, 2005 reflects a decrease of \$ over the final budget for the fiscal year ended June 30, 2004. The City Council also voted the Certified Tax Rate at .001575
- Some capital improvements budgeted for in the FY 2006 budget include:
 - Completion of the Planning & Zoning Office Remodel at the City Center
 - Parks & Trail Improvements
 - Proceed with obtaining new Ball Fields with trade for City property
 - Moving forward with a consultant for Golf Course Improvement Designs and the possibility of two new holes
 - 600 East Power line upgrade \$30,000 and cut over project \$5,000
 - Power plant substation completion \$65,000

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Payson City's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or request for additional financial information should be addressed to: City Recorder, Payson City, 439 W. Utah Avenue, Payson, UT 84651.

BASIC FINANCIAL STATEMENTS

PAYSON CITY CORPORATION
Statement of Net Assets
June 30, 2005

| | Governmental Activities | Primary Government Business-Type Activities | Total |
|--|----------------------------|---|----------------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 803,500 | \$ 2,085,670 | \$ 2,889,170 |
| Accounts Receivable (Net of Allowance for Uncollectables) | 1,063,771 | 1,548,118 | 2,611,889 |
| Prepaid Items | | 136,000 | 136,000 |
| Notes Receivable | 96,784 | | 96,784 |
| Internal Balances | - | - | - |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 1,415,459 | 2,405,219 | 3,820,678 |
| Bond Issuance Costs (Net of Accumulated Amortization) | | 296,971 | 296,971 |
| Capital Assets (Net of Accumulated Depreciation) | | | |
| Water Shares | - | 198,400 | 198,400 |
| Land | 3,800,477 | 7,040,381 | 10,840,858 |
| Buildings | 1,146,257 | 638,070 | 1,784,327 |
| Improvements | 4,114,349 | 28,813,533 | 32,927,882 |
| Machinery and Equipment | 1,273,377 | 1,152,942 | 2,426,319 |
| Infrastructure | 14,377,025 | | 14,377,025 |
| Construction in Progress | - | - | - |
| Total Assets | 28,090,999 | 44,315,304 | 72,406,303 |
| Liabilities | | | |
| Accounts Payable | 448,452 | 142,469 | 590,921 |
| Interest Payable | 131,190 | 254,209 | 385,399 |
| Other Current Liabilities | 159,295 | 467,929 | 627,224 |
| Compensated Absences | 407,505 | 339,902 | 747,407 |
| Water Share Liability | | 134,843 | 134,843 |
| Deferred Revenue | 690,666 | | 690,666 |
| Bond Premiums (Net) | | 156,076 | 156,076 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 1,010,576 | 1,228,966 | 2,239,542 |
| Due In More Than One Year | 4,463,990 | 17,386,505 | 21,850,495 |
| Closure and Postclosure Liability | | 840,325 | 840,325 |
| Total Liabilities | 7,311,674 | 20,951,224 | 28,262,898 |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 19,236,919 | 19,227,855 | 38,464,774 |
| Restricted for: | | | |
| Encumbrances | - | | - |
| Debt Service | 10,536 | 1,941,369 | 1,951,905 |
| Class "C" Roads | - | | - |
| Impact Fees | 518,318 | 791,911 | 1,310,229 |
| Grant Funds | 4,709 | | 4,709 |
| Landfill Closure Costs | | 455,350 | 455,350 |
| Unrestricted (Deficit) | 1,008,843 | 947,595 | 1,956,438 |
| Total Net Assets | \$ 20,779,325 | \$ 23,364,080 | \$ 44,143,405 |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Activities
For the Year Ended June 30, 2005

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|----------------------|----------------------|--|----------------------------------|---|--------------------------|----------------------|
| | | Charges for Services | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-Type Activities | |
| Primary Government | | | | | | | |
| Governmental Activities: | | | | | | | |
| General Government | \$ 2,623,888 | \$ 371,715 | \$ 36,692 | | \$ (2,215,481) | | \$ (2,215,481) |
| Public Safety | 2,072,252 | 226,458 | 248,149 | | (1,597,645) | | (1,597,645) |
| Highways and Streets | 870,504 | | | 595,665 | (274,839) | | (274,839) |
| Parks and Recreation | 1,420,543 | 492,325 | 9,454 | | (918,764) | | (918,764) |
| Economic Development | 302,670 | | | 43,456 | (259,214) | | (259,214) |
| Cemetery | 85,485 | 26,788 | | | (58,697) | | (58,697) |
| Interest on Long-Term Debt | 112,465 | | | | (112,465) | | (112,465) |
| Total Governmental Activities | 7,487,807 | 1,117,286 | 294,295 | 639,121 | (5,437,105) | | (5,437,105) |
| Business-Type Activities: | | | | | | | |
| Water | 1,258,298 | 1,601,573 | | 602,769 | | \$ 946,044 | 946,044 |
| Electric | 8,254,189 | 8,732,086 | | 26,000 | | 503,897 | 503,897 |
| Sewer | 1,066,035 | 1,438,854 | | 57,088 | | 429,907 | 429,907 |
| Solid Waste | 799,276 | 1,413,319 | | | | 614,043 | 614,043 |
| Golf | 773,874 | 534,858 | | | | (239,016) | (239,016) |
| Storm Drain | 205,199 | 520,565 | | 126,590 | | 441,956 | 441,956 |
| Ambulance | 196,577 | 264,634 | | 6,799 | | 74,856 | 74,856 |
| Total Business-Type Activities | 12,553,448 | 14,505,889 | - | 819,246 | - | 2,771,687 | 2,771,687 |
| Total Primary Government | \$ 20,041,255 | \$ 15,623,175 | \$ 294,295 | \$ 1,458,367 | (5,437,105) | 2,771,687 | (2,665,418) |
| General Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes | | | | | 1,048,846 | | 1,048,846 |
| General Sales Taxes | | | | | 1,826,194 | | 1,826,194 |
| Motor Vehicle Taxes | | | | | 122,252 | | 122,252 |
| Utility Taxes | | | | | 779,654 | | 779,654 |
| Other Taxes | | | | | 294,687 | | 294,687 |
| Special Assessments | | | | | 131,870 | | 131,870 |
| Gain (Loss) on Sale of Capital Asset | | | | | - | 288,822 | 288,822 |
| Impact Fees | | | | | 432,965 | 918,419 | 1,351,384 |
| Investment Earnings | | | | | 66,964 | 113,492 | 180,456 |
| Miscellaneous | | | | | 82,642 | | 82,642 |
| Transfers | | | | | 2,736,365 | (3,151,049) | (414,684) |
| Total General Revenues and Transfers | | | | | 7,522,439 | (1,830,316) | 5,692,123 |
| Change in Net Assets | | | | | 2,085,334 | 941,371 | 3,026,705 |
| Net Assets Beginning of Year | | | | | 18,693,991 | 22,422,709 | 41,116,700 |
| Net Assets End of Year | | | | | \$ 20,779,325 | \$ 23,364,080 | \$ 44,143,405 |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION

Balance Sheet Governmental Funds June 30, 2005

| | General | Special Revenue Fund RDA Business Park | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---|---------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 803,500 | \$ - | \$ - | \$ - | \$ 803,500 |
| Accounts Receivable (Net of Allowance for Uncollectables) | 1,063,771 | - | - | - | 1,063,771 |
| Due From Other Funds | 2,795,331 | - | - | 93,093 | 2,888,424 |
| Notes Receivable | | | | 96,784 | 96,784 |
| Restricted Assets: | | | | | |
| Cash and Cash Equivalents | 200,494 | - | 311,617 | 903,348 | 1,415,459 |
| Total Assets | <u>\$ 4,863,096</u> | <u>\$ -</u> | <u>\$ 311,617</u> | <u>\$ 1,093,225</u> | <u>\$ 6,267,938</u> |
| Liabilities | | | | | |
| Accrued Liabilities | \$ 382,431 | \$ 4,310 | \$ 32,468 | \$ 5,890 | \$ 425,099 |
| Due To Other Funds | - | 2,060,606 | 607,059 | 278,929 | 2,946,594 |
| Deposits | 159,294 | - | - | - | 159,294 |
| Interest Payable | | 12,386 | - | - | 12,386 |
| Deferred Revenue | 723,263 | | | | 723,263 |
| Bonds Payable | | 790,000 | - | - | 790,000 |
| Notes Payable | | 19,366 | - | - | 19,366 |
| Total Liabilities | <u>1,264,988</u> | <u>2,886,668</u> | <u>639,527</u> | <u>284,819</u> | <u>5,076,002</u> |
| Fund Balances | | | | | |
| Reserved for: | | | | | |
| Encumbrances | | - | - | - | - |
| Debt Service | | - | - | 10,536 | 10,536 |
| Class "C" Roads | - | - | - | - | - |
| Impact Fees | | - | - | 518,318 | 518,318 |
| Grant Funds | | - | - | 4,709 | 4,709 |
| Unreserved: | | | | | |
| Designated: | | | | | |
| General Fund | 146,467 | - | - | - | 146,467 |
| Undesignated (Deficit), Reported in: | | | | | |
| General Fund | 3,451,641 | - | - | - | 3,451,641 |
| Permanent Fund | | | | 553,286 | 553,286 |
| Capital Project Fund | | | (327,910) | | (327,910) |
| Special Revenue Funds | | (2,886,668) | - | (278,443) | (3,165,111) |
| Total Fund Balances (Deficits) | <u>3,598,108</u> | <u>(2,886,668)</u> | <u>(327,910)</u> | <u>808,406</u> | <u>1,191,936</u> |
| Total Liabilities and Fund Balances | <u>\$ 4,863,096</u> | <u>\$ -</u> | <u>\$ 311,617</u> | <u>\$ 1,093,225</u> | <u>\$ 6,267,938</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Funds Balances \$ 1,191,936

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds 24,340,340

Long-term Assets not available to pay for current period expenditures
and, therefore, are deferred in the funds. 32,597

An internal service fund is used by management to charge
the costs of vehicle repairs and maintenance to individual funds.
The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets. 197,689

Long-term liabilities, including bonds payable and accrued
interest payable, are not due and payable in the current
period and therefore are not reported in the funds:

| | | |
|--------------------------|----------------|--------------------|
| Special Assessment Bonds | \$ (4,491,030) | |
| Accrued Interest Payable | (118,804) | |
| Compensated Absences | (373,403) | |
| Total | | <u>(4,983,237)</u> |

Net Assets of Governmental Activities \$ 20,779,325

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

| | General | Special Revenue Fund RDA Business Park | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---|---------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes: | | | | | |
| Property Taxes | \$ 707,076 | \$ 184,433 | \$ - | \$ 152,461 | \$ 1,043,970 |
| General Sales Taxes | 1,826,194 | - | - | - | 1,826,194 |
| Motor Vehicle Taxes | 122,252 | - | - | - | 122,252 |
| Utility Taxes | 779,654 | - | - | - | 779,654 |
| Other Taxes | 294,687 | - | - | - | 294,687 |
| Licenses and Permits | 355,728 | - | - | - | 355,728 |
| Intergovernmental | 772,337 | - | - | 43,456 | 815,793 |
| Charges for Services | 585,494 | - | - | 26,788 | 612,282 |
| Fines and Forfeitures | 149,276 | - | - | - | 149,276 |
| Special Assessments | - | - | - | 131,870 | 131,870 |
| Interest | 31,999 | - | 7,264 | 27,701 | 66,964 |
| Miscellaneous | 82,642 | - | - | - | 82,642 |
| Total Revenues | 5,707,339 | 184,433 | 7,264 | 382,276 | 6,281,312 |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government | 2,617,989 | - | - | - | 2,617,989 |
| Public Safety | 2,172,887 | - | - | - | 2,172,887 |
| Highways and Streets | 442,987 | - | - | - | 442,987 |
| Parks and Recreation | 1,177,495 | - | - | - | 1,177,495 |
| Economic Development | 80,872 | 29,531 | 5,336 | 102,982 | 218,721 |
| Cemetery | 85,485 | - | - | - | 85,485 |
| Debt Service: | | | | | |
| Principal Retirement | - | - | 435,654 | 111,305 | 546,959 |
| Interest and Fiscal Charges | 323,775 | 52,009 | 181,468 | 38,584 | 595,836 |
| Capital Outlay: | | | | | |
| Highways and Streets | 383,436 | - | - | 5,786 | 389,222 |
| Culture and Recreation | - | - | 464,532 | 72,081 | 536,613 |
| Economic Development | - | 3,411 | - | 25,421 | 28,832 |
| Total Expenditures | 7,284,926 | 84,951 | 1,086,990 | 356,159 | 8,813,026 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,577,587) | 99,482 | (1,079,726) | 26,117 | (2,531,714) |
| Other Financing Sources (Uses) | | | | | |
| Impact Fees | - | - | - | 432,965 | 432,965 |
| Sale of Fixed Assets | - | - | - | - | - |
| Capital Lease Proceeds | - | - | - | - | - |
| Bonds Issued | - | - | - | - | - |
| Transfers In | 2,754,145 | - | 1,128,665 | - | 3,882,810 |
| Transfers Out | (1,122,615) | - | - | (23,830) | (1,146,445) |
| Total Other Financing Sources (Uses) | 1,631,530 | - | 1,128,665 | 409,135 | 3,169,330 |
| Net Change in Fund Balances | 53,943 | 99,482 | 48,939 | 435,252 | 637,616 |
| Fund Balances (Deficits) Beginning of Year | 3,544,165 | (2,986,150) | (376,849) | 373,154 | 554,320 |
| Fund Balances (Deficits) End of Year | \$ 3,598,108 | \$ (2,886,668) | \$ (327,910) | \$ 808,406 | \$ 1,191,936 |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

| | |
|---|---------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 637,616 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | |
| | 294,889 |
| The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase (decrease) net assets. | |
| | 117,623 |
| The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. | |
| | 1,030,330 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | |
| | 4,876 |
| The internal service funds used by management to charge the the costs of insurance and workers' compensation to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. | |
| | <u>-</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 2,085,334</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Net Assets
Proprietary Funds
June 30, 2005

| | Business Type Activities - Enterprise Funds | | | | | |
|---|---|---------------------|---------------------|---------------------------|----------------------|---------------------------|
| | Water | Electric | Sewer | Other Enterprise Funds | Total | Internal Service Funds |
| Assets | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 794,457 | \$ 568,728 | \$ 395,931 | \$ 326,554 | \$ 2,085,670 | \$ - |
| Accounts Receivable (Net of Allowance for Uncollectables) | 158,791 | 872,635 | 159,964 | 356,728 | 1,548,118 | |
| Due From Other Funds | 116,462 | 605,208 | - | 587,521 | 1,309,191 | 58,169 |
| Prepaid Items | - | 136,000 | - | - | 136,000 | |
| Total Current Assets | 1,069,710 | 2,182,571 | 555,895 | 1,270,803 | 5,078,979 | 58,169 |
| Noncurrent Assets: | | | | | | |
| Restricted Assets: | | | | | | |
| Cash and Cash Equivalents | 695,862 | 828,593 | 425,414 | 455,350 | 2,405,219 | |
| Bond Issuance Costs | 271,946 | 106,405 | - | - | 378,351 | |
| Less Accumulated Amortization | (4,532) | (76,848) | - | - | (81,380) | |
| Capital Assets: | | | | | | |
| Water Shares | 198,400 | - | - | - | 198,400 | |
| Land | 6,711,439 | 116,337 | 157,482 | 55,123 | 7,040,381 | |
| Buildings | - | 279,792 | 13,199 | 513,457 | 806,448 | |
| Improvements | 12,980,700 | 15,414,606 | 17,191,577 | 3,062,140 | 48,649,023 | |
| Machinery and Equipment | 77,385 | 710,370 | 267,808 | 2,737,600 | 3,793,163 | 1,516,046 |
| Construction in Progress | - | - | - | - | - | |
| Less Accumulated Depreciation | (5,563,978) | (7,900,154) | (5,728,066) | (3,451,891) | (22,644,089) | (1,144,901) |
| Total Capital Assets, Net | 14,403,946 | 8,620,951 | 11,902,000 | 2,916,429 | 37,843,326 | 371,145 |
| Total Noncurrent Assets | 15,367,222 | 9,479,101 | 12,327,414 | 3,371,779 | 40,545,516 | 371,145 |
| Total Assets | 16,436,932 | 11,661,672 | 12,883,309 | 4,642,582 | 45,624,495 | 429,314 |
| Liabilities | | | | | | |
| Current Liabilities: | | | | | | |
| Accrued Liabilities | 6,812 | 100,012 | 6,966 | 28,679 | 142,469 | 23,353 |
| Due to Other Funds | - | - | - | 1,309,191 | 1,309,191 | |
| Compensated Absences Payable | 53,900 | 152,775 | 20,739 | 112,488 | 339,902 | 34,102 |
| Performance Bond | - | 56,281 | - | - | 56,281 | |
| Bonds Payable | 155,000 | 640,000 | 283,000 | - | 1,078,000 | |
| Interest Payable | 115,669 | 29,219 | 109,321 | - | 254,209 | |
| Capital Leases Payable | - | - | - | 150,966 | 150,966 | 78,841 |
| Total Current Liabilities | 331,381 | 978,287 | 420,026 | 1,601,324 | 3,331,018 | 136,296 |
| Current Liabilities Payable from Restricted Assets: | | | | | | |
| Customer Deposits Payable | - | 411,648 | - | - | 411,648 | |
| Total Current Liabilities Payable from Restricted Assets | - | 411,648 | - | - | 411,648 | - |
| Long-Term Liabilities: | | | | | | |
| Unamortized Bond Premiums (Net) | 156,076 | - | - | - | 156,076 | |
| Revenue Bonds Payable (net of current portion) | 9,290,000 | 1,360,000 | 6,412,000 | - | 17,062,000 | |
| Notes Payable (net of current portion) | - | - | - | - | - | |
| Capital Leases Payable (net of current portion) | - | - | - | 324,505 | 324,505 | 95,329 |
| Closure and Postclosure Liability | - | - | - | 840,325 | 840,325 | |
| Water Share Liability | 134,843 | - | - | - | 134,843 | |
| Total Long-Term Liabilities | 9,580,919 | 1,360,000 | 6,412,000 | 1,164,830 | 18,517,749 | 95,329 |
| Total Liabilities | 9,912,300 | 2,749,935 | 6,832,026 | 2,766,154 | 22,260,415 | 231,625 |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 4,958,946 | 6,620,951 | 5,207,000 | 2,440,958 | 19,227,855 | 196,975 |
| Restricted for: | | | | | | |
| Bond and Lease Requirements | 695,676 | 820,322 | 425,371 | - | 1,941,369 | |
| Landfill Closure Costs | - | - | - | 455,350 | 455,350 | |
| Impact Fees | 122,882 | 311,611 | 357,418 | - | 791,911 | |
| Unrestricted | 747,128 | 1,158,853 | 61,494 | (1,019,880) | 947,595 | 714 |
| Total Net Assets | \$ 6,524,632 | \$ 8,911,737 | \$ 6,051,283 | \$ 1,876,428 | \$ 23,364,080 | \$ 197,689 |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

| | Business Type Activities - Enterprise Funds | | | | | |
|---|---|--------------|--------------|---------------------------|---------------|---------------------------|
| | Water | Electric | Sewer | Other Enterprise Funds | Total | Internal Service Funds |
| Operating Revenues | | | | | | |
| Charges for Services | \$ 1,599,127 | \$ 8,661,193 | \$ 1,412,932 | \$ 2,675,654 | \$ 14,348,906 | \$ - |
| Miscellaneous | 2,446 | 70,893 | 25,922 | 57,722 | 156,983 | - |
| Total Operating Revenues | 1,601,573 | 8,732,086 | 1,438,854 | 2,733,376 | 14,505,889 | - |
| Operating Expenses | | | | | | |
| Costs of Sales and Services | 419,741 | 7,244,125 | 291,542 | 1,107,973 | 9,063,381 | 270,618 |
| Maintenance Operations and Contractual Services | 64,724 | 253,925 | 119,426 | 362,447 | 800,522 | 86,342 |
| Materials and Supplies | 79,410 | 214,172 | 28,079 | 132,251 | 453,912 | 125,110 |
| Depreciation | 299,391 | 436,197 | 353,513 | 347,458 | 1,436,559 | 184,666 |
| Amortization | 17,683 | 11,823 | - | - | 29,506 | - |
| Total Operating Expenses | 880,949 | 8,160,242 | 792,560 | 1,950,129 | 11,783,880 | 666,736 |
| Operating Income (Loss) | 720,624 | 571,844 | 646,294 | 783,247 | 2,722,009 | (666,736) |
| Non-Operating Revenues (Expenses) | | | | | | |
| Interest Income | 19,631 | 71,635 | 11,296 | 10,930 | 113,492 | - |
| Impact Fees | 276,984 | 243,611 | 397,824 | - | 918,419 | - |
| Grant Revenue | 500,000 | - | - | 6,799 | 506,799 | - |
| Gain (Loss) on Sale of Fixed Assets | - | 206,578 | - | 82,244 | 288,822 | 50 |
| Interest and Fiscal Charges | (377,349) | (93,947) | (273,475) | (24,797) | (769,568) | (7,109) |
| Total Non-Operating Revenues (Expenses) | 419,266 | 427,877 | 135,645 | 75,176 | 1,057,964 | (7,059) |
| Income (Loss) before Capital Contributions and Transfers | 1,139,890 | 999,721 | 781,939 | 858,423 | 3,779,973 | (673,795) |
| Capital Contributions | 102,769 | 26,000 | 57,088 | 126,590 | 312,447 | - |
| Transfers In | 185,000 | 526,516 | - | - | 711,516 | 627,881 |
| Transfers Out | (595,904) | (1,561,623) | (891,978) | (813,060) | (3,862,565) | - |
| Change in Net Assets | 831,755 | (9,386) | (52,951) | 171,953 | 941,371 | (45,914) |
| Net Assets Beginning of Year | 5,692,877 | 8,921,123 | 6,104,234 | 1,704,475 | 22,422,709 | 243,603 |
| Net Assets End of Year | \$ 6,524,632 | \$ 8,911,737 | \$ 6,051,283 | \$ 1,876,428 | \$ 23,364,080 | \$ 197,689 |

PAYSON CITY CORPORATION
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

| | Business Type Activities - Enterprise Funds | | | | | Internal Service Funds |
|---|---|--------------|--------------|---------------------------|---------------|---------------------------|
| | Water | Electric | Sewer | Other Enterprise Funds | Total | |
| Cash Flows from Operating Activities | | | | | | |
| Receipts from Customers and Users | \$ 1,605,484 | \$ 8,840,153 | \$ 1,440,698 | \$ 2,728,406 | \$ 14,614,741 | \$ - |
| Receipts from Interfund Services Provided | | | | | - | |
| Payments to Employees for Services | (246,362) | (802,608) | (185,949) | (716,910) | (1,951,829) | (145,202) |
| Payments for Goods and Services | (497,597) | (6,735,567) | (101,411) | (586,305) | (7,920,880) | (360,235) |
| Net Cash Provided by (Used in) Operating Activities | 861,525 | 1,301,978 | 1,153,338 | 1,425,191 | 4,742,032 | (505,437) |
| Cash Flows from Noncapital Financing Activities | | | | | | |
| Operating Grants Received | 500,000 | - | - | 6,799 | 506,799 | |
| Transfers to Other Funds | (595,904) | (1,561,623) | (891,978) | (813,060) | (3,862,565) | |
| Transfers from Other Funds | 185,000 | 526,516 | - | - | 711,516 | 627,880 |
| Net Cash Provided by (Used in) Noncapital Financing Activities | 89,096 | (1,035,107) | (891,978) | (806,261) | (2,644,250) | 627,880 |
| Cash Flows from Capital and Related Financing Activities | | | | | | |
| Proceeds from Sale of Revenue Bonds | 9,329,130 | - | - | - | 9,329,130 | |
| Impact Fees | 276,984 | 243,611 | 397,824 | - | 918,419 | |
| Proceeds from Capital Leases | - | - | - | - | - | |
| Proceeds from Sale of Assets | - | 206,578 | - | 82,244 | 288,822 | 50 |
| Principal Paid on Revenue Bonds | (9,436,872) | (615,000) | (272,000) | - | (10,323,872) | |
| Interest Paid on Revenue Bonds | (377,349) | (93,947) | (273,475) | - | (744,771) | (7,109) |
| Principal Paid on Capital Leases | - | - | - | (205,784) | (205,784) | (76,294) |
| Interest Paid on Capital Leases | - | - | - | (24,797) | (24,797) | |
| Payments for Capital Acquisitions | (507,650) | (536,030) | (427,950) | (283,351) | (1,754,981) | (39,090) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | (715,757) | (794,788) | (575,601) | (431,688) | (2,517,834) | (122,443) |
| Cash Flows from Investing Activities | | | | | | |
| Interest Income Received | 19,631 | 71,635 | 11,296 | 10,930 | 113,492 | |
| Net Increase (Decrease) in Cash and Cash Equivalents | 254,495 | (456,282) | (302,945) | 198,172 | (306,560) | - |
| Cash and Cash Equivalents Beginning of Year | 1,235,824 | 1,853,603 | 1,124,290 | 583,732 | 4,797,449 | 0 |
| Cash and Cash Equivalents End of Year | \$ 1,490,319 | \$ 1,397,321 | \$ 821,345 | \$ 781,904 | \$ 4,490,889 | \$ - |
| Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities | | | | | | |
| Operating Income (Loss) | \$ 720,624 | \$ 571,844 | \$ 646,294 | \$ 783,247 | \$ 2,722,009 | \$ (666,736) |
| Adjustments: | | | | | | |
| Depreciation | 299,391 | 436,197 | 353,513 | 347,458 | 1,436,559 | 184,666 |
| Amortization | 17,683 | 11,823 | - | 0 | 29,506 | - |
| (Increase) Decrease in Assets: | | | | | | |
| Accounts Receivable | 3,911 | 8,544 | 1,844 | (4,970) | 9,329 | |
| Allowance for Uncollectable Accounts | - | - | - | 0 | - | |
| Due From Other Funds | (116,462) | 211,893 | 179,182 | 70,208 | 344,821 | (47,292) |
| Increase (Decrease) in Liabilities: | | | | | | |
| Accrued Liabilities | 292 | 65,384 | (8,659) | (3,196) | 53,821 | 19,056 |
| Customer Deposits | - | 99,523 | - | 0 | 99,523 | |
| Performance Bond | - | (93,779) | - | 0 | (93,779) | |
| Compensated Absences Payable | (2,672) | (2,183) | (13,631) | (8,429) | (26,915) | 4,869 |
| Water Share Liability | 6,765 | - | - | 0 | 6,765 | |
| Accrued Interest | (919) | (7,268) | (5,205) | 0 | (13,392) | |
| Due to Other Funds | (67,088) | - | - | 178,138 | 111,050 | |
| Closure and Postclosure Care | - | - | - | 62,735 | 62,735 | |
| Net Cash Provided by (Used in) Operating Activities | \$ 861,525 | \$ 1,301,978 | \$ 1,153,338 | \$ 1,425,191 | \$ 4,742,032 | \$ (505,437) |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Payson City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

Payson City is a political subdivision of the State of Utah. Payson City Corporation was incorporated in 1853 under the laws of the State of Utah. The City operates under a Mayor-Council form of government. The City provides municipal services under the following organizational structure.

Mayor and City Council: Mayor and City Council, Community Promotion, and Advisory Boards and Commissions.

City Administration: City Administrator, Risk Management, Emergency Operations, Recorder, Community and Neighborhood, and Computer Services.

Financial Services: Finance Director, Treasurer, Utilities, Accounting, Facilities, and Purchasing.

City Attorney: Legal Services, Prosecution, Civil and Environmental Law, and Personnel.

Development Services: Economic Development, Planning and Zoning, and Code Enforcement.

Public Safety: Police, Fire, Animal Control, and Emergency Medical Services.

Public Works: Streets, Engineering Parks, Fleet Maintenance, Water, Solid Waste Services, Water Reclamation, Street Lighting, and Storm Sewer Services.

Recreation: Swimming Pool Operations, Outdoor Recreation Programs, and Senior Citizen Programs.

Library: Library Administration, Collection Development, and Public Services.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

The City is a municipal corporation governed by an elected five-member Council and Mayor. As required by generally accepted accounting principles, these financial statements present the City (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Redevelopment Agency is governed by a separate governing board, who are the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund (RDA Business Park)* accounts for revenue and expenditures of promoting economic development in the City’s business park area.

The *capital projects fund* accounts for the activities concerning the capital projects of the City.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water production, treatment and distribution operations.

The *electric fund* accounts for the activities of the City's electric generation and distribution operations.

The *sewer fund* accounts for the activities of the City's sewer treatment operations.

Activities of these three funds include administration, operations and maintenance of the water, sewer and electric systems and billing and collection. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for all water, sewer and electric fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

Additionally the City reports the *internal service fund* to account for the costs of operating and maintaining vehicles and equipment owned by the City. The City also reports the following non-major fund type; Debt Service, Special Revenue and Proprietary.

As a general rule, the effect of interfund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by various enterprise funds for the providing of administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with Federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to or due from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary or bonding requirements, is classified as "restricted cash" on the Statement of Net Assets and on the Balance Sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and structures | 30-50 |
| Improvements other than buildings | 20-50 |
| Infrastructure | 20-40 |
| Machinery and equipment | 5-10 |
| Furniture and fixtures | 5-10 |

The City has adopted an allowable alternative to reporting depreciation for its roads network. Under this alternative method, referred to as the “modified approach,” the City must maintain an asset management system and demonstrate that its roads are being preserved at or above condition levels established by City policy. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

6. Compensated Absences

Payson City Corporation’s personnel policy permits employees to accumulate earned, but unused, vacation time which will be paid to employees upon termination. At June 30, 2005, the total liability for compensated absences is \$747,407.

7. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 – SUMMARY (*CONTINUED*)

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Net assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

11. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

| | |
|--|---------------------|
| Cost of capital assets | \$27,392,403 |
| Accumulated depreciation | <u>(3,052,063)</u> |
| Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>) | <u>\$24,340,340</u> |

Long-term debt transactions:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 2 – RECONCILIATION (CONTINUED)

| | |
|--|---------------------|
| Accrued interest payable | \$ 118,804 |
| Capital lease payable | 1,214,200 |
| Compensated absences | 373,403 |
| Bonds payable | <u>3,276,830</u> |
| Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | <u>\$ 4,983,237</u> |

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

| | |
|--|-------------------|
| Capital outlay | \$ 837,185 |
| Depreciation expense | <u>(542,296)</u> |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ 294,889</u> |

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.”

| | |
|---|-------------------|
| The statement of activities reports <i>capital contributions</i> from developers as revenue. Conversely, governmental funds do not report any capital contributions from developers as revenue. | <u>\$ 117,623</u> |
| Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$ 117,623</u> |

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 2 – RECONCILIATION (CONTINUED)

| | |
|---|--------------------|
| Accrued Interest | \$ 25,504 |
| Bond Payment | 679,172 |
| Lease payment | <u>325,654</u> |
| Net adjustments to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <u>\$1,030,330</u> |

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

NOTE 4 – DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, the City's custodial credit risk for deposits were as follows:

| | | Balance |
|---------------------------|------------------------------|----------------------|
| <u>Depository Account</u> | <u>Custodial Credit Risk</u> | <u>June 30, 2005</u> |
| Regular Checking Account | Insured | \$ 100,000 |
| Regular Checking Account | Uninsured and Collateralized | 56,644 |
| | | <u>\$ 156,644</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or non-negotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poor’s, bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurer’s Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005 the government had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities In Years | | | |
|--|---------------------|--------------------------------|-------------|-------------|--------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| State of Utah Public Treasurer’s Investment Fund | \$ 5,777,012 | \$ 5,777,012 | \$ - | \$ - | \$ - |
| Dreyfus Treasury Cash Management | 791,266 | 791,266 | | | |
| Total Fair Value | <u>\$ 6,568,278</u> | <u>\$ 6,568,278</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit Risk – The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The PTIF is unrated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's \$791,266 investment in Dreyfus Treasury Cash Management, the entire \$791,266 of underlying securities are held by the investment's counterparty, not in the name of the City, and are not insured. The District does not have an investment policy for custodial credit risk.

The deposits and investments described above are included on the Statement of Net Assets as per the following reconciliation:

| | |
|--------------------------|--------------------|
| Deposits and Investments | \$ 113,613 |
| Investments | 6,595,235 |
| Cash on Hand | <u>1,000</u> |
| Total Cash | <u>\$6,709,848</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 4 – CASH (CONTINUED)

| | |
|---|------------------------|
| Government-Wide | |
| Cash and Cash Equivalents | \$2,889,170 |
| Restricted Cash and Cash Equivalents | 3,411,426 |
| Fiduciary Restricted Cash | <u>409,252</u> |
| Total Cash | <u>\$6,709,848</u> |
| Net Cash on Statement of Net Assets | <u>\$6,709,848</u> |

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major fund and non major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General | RDA | Capital Projects | Water | Electric | Sewer | Non Major Business Type | Non Major Government'l | Total |
|---|--------------------|-------------|---------------------|------------------|-------------------|------------------|-------------------------------|---------------------------|--------------------|
| Receivables: | | | | | | | | | |
| Accounts | \$ - | \$ 0 | \$ 0 | \$158,791 | \$ 998,700 | \$159,964 | \$356,728 | \$ - | \$1,674,183 |
| Property tax | 726,457 | | | | | | | | 726,457 |
| Other taxes | 337,314 | | | | | | | | 337,314 |
| Less allowance for uncollectible accounts | | | | | (126,065) | | | | (126,065) |
| | <u>\$1,063,771</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$158,791</u> | <u>\$ 872,635</u> | <u>\$159,964</u> | <u>\$356,728</u> | <u>\$ -</u> | <u>\$2,611,889</u> |

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|--|--------------------|-------------------|
| Property taxes receivable (general fund) | <u>\$ 659,740</u> | <u>\$ 659,740</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|------------------------|--------------------|
| General | RDA Business Park | \$2,060,606 |
| | Capital Projects | 607,059 |
| | Non Major Government | 2,795,331 |
| Electric | Non Major Enterprise | 605,208 |
| Water | Non Major Enterprise | 116,462 |
| Non Major Governmental | Non Major Governmental | (2,574,571) |
| Non Major Enterprise | Non Major Enterprise | 587,521 |
| Internal Service Fund | Non Major Enterprise | 58,169 |
| Total | | <u>\$4,255,785</u> |

Inter-fund Transfers:

| <u>Transfer Out:</u> | <u>Transfers In:</u> | | | | | | <u>Total</u> |
|----------------------|----------------------|-------------------------|--------------|-----------------|-------------------------|-----------------------------|--------------|
| | <u>General</u> | <u>Capital Projects</u> | <u>Water</u> | <u>Electric</u> | <u>Internal Service</u> | <u>Non Major Enterprise</u> | |
| General | \$ - | \$ 411,099 | \$185,000 | \$526,516 | \$ - | \$ - | 1,122,615 |
| Water | 509,000 | | | | 86,904 | | 595,904 |
| Electric | 955,195 | 390,666 | | | 215,762 | | 1,561,623 |
| Sewer | 841,978 | | | | 50,000 | | 891,978 |
| Non Major Enterprise | 424,142 | 326,900 | | | 62,018 | | 813,060 |
| Perpetual Care | 23,830 | | | | | | 23,830 |
| Total Transfers Out | \$2,754,145 | \$1,128,665 | \$185,000 | \$526,516 | \$414,684 | \$ - | \$5,009,010 |

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

| Primary Government Governmental activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|-------------------|------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,800,477 | \$ - | \$ - | \$ 3,800,477 |
| Infrastructure | 14,259,402 | 117,623 | | 14,377,025 |
| Total capital assets not being depreciated | 18,059,879 | 117,623 | - | 18,177,502 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,059,430 | | | 2,059,430 |
| Improvements | 4,629,008 | 543,253 | | 5,172,261 |
| Machinery and equipment | 3,181,502 | 317,754 | | 3,499,256 |
| Internal Service Fund Equipment | | | - | - |
| Total capital assets being depreciated | 9,869,940 | 861,007 | - | 10,730,947 |
| Less accumulated depreciation for: | | | | |
| Buildings | 861,687 | 51,486 | | 913,173 |
| Improvements | 705,041 | 352,871 | | 1,057,912 |
| Machinery and equipment | 1,903,274 | 322,605 | | 2,225,879 |
| Infrastructure | | | - | - |
| Total accumulated depreciation | 3,470,002 | 726,962 | - | 4,196,964 |
| Total capital assets, being depreciated, net | 6,399,938 | 134,045 | - | 6,533,983 |
| Governmental activities capital assets, net | <u>\$ 24,459,817</u> | <u>\$ 251,668</u> | <u>\$ -</u> | <u>\$ 24,711,485</u> |
| | Beginning | Increases | Decreases | Ending |
| Business Type Activities | | | | |
| Capital Assets, not being depreciated: | | | | |
| Land | \$ 7,040,381 | \$ - | \$ - | \$ 7,040,381 |
| Water Shares | 198,400 | - | - | 198,400 |
| Total Capital Assets, not being depreciated | <u>\$ 7,238,781</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,238,781</u> |
| Capital Assets, Being depreciated | | | | |
| Building | \$ 526,656 | \$ 279,792 | \$ - | \$ 806,448 |
| Improvements | 46,610,432 | 2,038,591 | - | 48,649,023 |
| Machinery and Equipment | 3,784,328 | 28,835 | 20,000 | 3,793,163 |
| Construction-in-Progress | 279,792 | | 279,792 | - |
| Total Capital Assets, being depreciated | <u>51,201,208</u> | <u>2,347,218</u> | <u>299,792</u> | <u>53,248,634</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 6 – CAPITAL ASSETS (Continued)

| | | | | |
|--|----------------------|--------------------|-------------------|----------------------|
| Less Accumulated Depreciation | | | | |
| Building | (151,530) | (16,848) | | (168,378) |
| Improvements | (18,717,825) | (1,117,665) | | (19,835,490) |
| Machinery and Equipment | (2,358,175) | (302,046) | (20,000) | (2,640,221) |
| Construction In Progress | | | - | - |
| Total accumulated depreciation | <u>(21,227,530)</u> | <u>(1,436,559)</u> | <u>(20,000)</u> | <u>(22,644,089)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>29,973,678</u> | <u>910,659</u> | <u>279,792</u> | <u>30,604,545</u> |
| Business Activities Capital assets, net | <u>\$ 37,212,459</u> | <u>\$ 910,659</u> | <u>\$ 279,792</u> | <u>\$ 37,843,326</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|--------------------|
| Governmental activities: | |
| General government | \$ 109,983 |
| Public safety | 80,123 |
| Highways and public improvements | 25,193 |
| Economic Development | 83,949 |
| Parks and recreation | 243,048 |
| Capital assets held by the government's Internal Service | |
| Fund are charged to various functions based on their | |
| usage of assets | <u>184,666</u> |
| Total depreciation expense – governmental activities | <u>\$ 726,962</u> |
| Business – type activities: | |
| Water | \$ 299,391 |
| Electric | 436,197 |
| Sewer | 353,513 |
| Solid Waste | 131,638 |
| Golf Course | 172,517 |
| Storm Drain | 13,782 |
| Ambulance | <u>29,521</u> |
| Total depreciation expense business-type activities | <u>\$2,163,521</u> |
| Total depreciation expense | <u>\$1,978,855</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 7 - LEASE COMMITMENTS

The City over the past few years has executed various capital leases.

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> | <u>Business Type</u> |
|--------------------------------|------------------------------------|--------------------------|
| Asset: | | |
| Machinery and Equipment | \$1,505,500 | \$1,557,164 |
| Less: Accumulated Depreciation | (88,534) | (644,176) |
| Total | <u>\$1,416,966</u> | <u>\$ 912,988</u> |

Amortization of capital assets purchased under capital leases are included in depreciation.

The present value of future minimum capital lease payments under these leases as of June 30, 2005 are:

| <u>Fiscal Year</u> | <u>Amount</u> |
|---|--------------------|
| 2006 | \$ 577,552 |
| 2007 | 529,480 |
| 2008 | 415,187 |
| 2009 | 230,520 |
| 2010 | 63,311 |
| 2011 | <u>24,078</u> |
| Total minimum lease payments | 1,840,128 |
| Less amounts representing interest | (150,458) |
| Present value of minimum lease payments | <u>\$1,689,670</u> |

At June 30, 2005, the City's capital leases payable balance consisted of the following:

| | <u>Total Capital Leases Payable All Fund Types</u> |
|--|--|
| Capital Leases Payable | \$1,689,670 |
| Current Portion Capital Leases Payable | (528,176) |
| Long Term Capital Leases Payable | <u>\$1,161,494</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 8 – BONDS AND NOTES PAYABLE

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities:

As of June 30, 2005, the governmental long-term debt of the financial reporting entity consisted of the following:

| | |
|---|-------------------|
| Special Revenue Fund – RDA | |
| Tax Increment Revenue Bonds, Series 1998, 5.15% | |
| Dated March 1, 1997 (original amount \$1,130,000) | \$ 790,000 |
| Special Improvement District No. 2001-1 | |
| 5.8%, (original amount \$2,500,000) | 2,195,000 |
| Special Assessment Bonds Series 1999 | |
| 4.5% to 5.8%, (original amount \$1,215,000) | 638,000 |
| Excise Tax Road bonds Series 2002 | |
| 2.35% to 3.7% (original amount \$811,000) | 417,000 |
| Excise Tax Road Bonds Series 2003 | |
| 1.80% to 2.75%, (original amount \$400,000) | 201,000 |
| Thompson Note, \$21,145 annually | <u>19,366</u> |
| Total Bonds and Notes | 4,260,366 |
| Less Noncurrent | (3,627,000) |
| Current Portion | <u>\$ 633,366</u> |
| Capital lease | |
| 2003 ball field leases, 3.19% | |
| (original amount \$1,505,500) | \$ 1,040,030 |
| 2002 Ladder truck 3.30% (original amount \$383,943) | |
| (Internal Service reported in government assets) | <u>174,170</u> |
| Total capital lease | 1,214,200 |
| Less Noncurrent | (836,990) |
| Current Portion | <u>\$ 377,210</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 8 – BONDS AND NOTES PAYABLE (CONTINUED)

Bond Anticipation Note

During the fiscal year ended June 30, 2002, the City obtained a bond anticipation note for the purchase of land in the amount of \$5,940,000. A new note was issued to refinance the \$5,940,000 in the amount of \$6,762,000 with interest only payments due each May and November beginning in November 2003, with the new note maturing in 2006. During the year, the City issued new bonds to pay off the note in the amount of \$9,445,000.

Business-type Activities:

As of June 30, 2005, the long-term debt payable from proprietary fund resources consisted of the following:

| | |
|---|---------------------|
| Electric Revenue Refunding Bonds, Series 1999, dated January 4, 1999, 3%-4.2% (original amount \$5,125,000) | \$2,000,000 |
| Sewer Revenue Bonds, Series 2001, dated August 21, 2001 4% (original amount \$7,479,000) | 6,695,000 |
| Water Revenue and Refunding Series 2005, dated Feb. 1, 2005 3-5% (original amount \$9,445,000) | <u>9,445,000</u> |
| Total Bonds & Notes | 18,140,000 |
| Less non-current | (17,062,000) |
| Current portion | <u>\$ 1,078,000</u> |

Capital Leases

| | |
|--|------------------|
| 2003 Golf Truck, 2.65% (original amount \$25,722) | \$ 14,938 |
| 2003 Golf Mower, 2.65% (original amount \$19,800) | 11,498 |
| 2001 Golf Equipment, 4.75% (original amount \$33,050) | 9,037 |
| 2000 Caterpillar (original amount \$196,525) | 7,498 |
| 2000 Grinder/screen/loader, 5.6% (original amount \$347,500) | 209,232 |
| 2000 Grinder, 6.65% (original amount \$153,000) | 92,554 |
| 2000 Mowers, 5.95% (original amount \$55,615) | 2,108 |
| 2002 Golf Carts, 4.31% (original amount \$66,160) | 27,063 |
| 2003 Golf Carts, 2.45% (original amount \$32,500) | 11,107 |
| 2002 Garbage Truck, 2.0-9% (original amount \$147,385) | 57,341 |
| 2005 Golf Equipment 2.85% (original amount \$20,684) | 16,263 |
| 2005 Golf Carts, 2.45% (original amount \$26,000) | <u>16,832</u> |
| Total Capital lease | 475,471 |
| Less Noncurrent | <u>324,505</u> |
| Current portion | <u>\$150,966</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

The future annual requirements for all outstanding bond and note obligations as of June 30, 2005 are as follows:

| <u>Fiscal Year</u> | <u>All Bonds and Notes</u> | | |
|--------------------|----------------------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2006 | \$ 1,711,366 | \$ 988,949 | \$ 2,700,315 |
| 2007 | 1,833,000 | 841,731 | 2,674,731 |
| 2008 | 1,586,000 | 774,197 | 2,360,197 |
| 2009 | 933,000 | 725,517 | 1,658,517 |
| 2010 | 998,000 | 725,517 | 1,723,517 |
| 2011-2015 | 4,542,000 | 2,957,220 | 7,499,220 |
| 2016-2020 | 4,719,000 | 1,924,398 | 6,643,398 |
| 2021-2025 | 3,253,000 | 1,490,830 | 4,743,830 |
| 2026-2030 | <u>2,825,000</u> | <u>334,400</u> | <u>3,159,400</u> |
| Total | <u>\$22,400,366</u> | <u>\$10,762,759</u> | <u>\$33,163,125</u> |

Changes in Long Term Debt

| <u>Government Activities</u> | <u>2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>2005</u> | <u>One Year</u> |
|--------------------------------|---------------------|------------------|---------------------|---------------------|---------------------|
| Bonds Payable | | | | | |
| Special Revenue - RDA | \$ 870,000 | | \$ 80,000 | \$ 790,000 | \$ 85,000 |
| SID No. 200101 | 2,305,000 | | 110,000 | 2,195,000 | 115,000 |
| Special Assessment Bond 1999 | 729,000 | | 91,000 | 638,000 | 110,000 |
| Excise Tax Road Bonds 2002 | 616,000 | | 199,000 | 417,000 | 205,000 |
| Excise Tax Road Bond 2003 | 298,000 | | 97,000 | 201,000 | 99,000 |
| Notes Payables | 51,904 | | 32,538 | 19,366 | 19,366 |
| Capital Lease | 1,616,148 | | 401,948 | 1,214,200 | 377,210 |
| Accrued Compensated Absences | 388,671 | 18,834 | | 407,505 | |
| Govt Activities Long term debt | <u>\$ 6,874,723</u> | <u>\$ 18,834</u> | <u>\$ 1,011,486</u> | <u>\$ 5,882,071</u> | <u>\$ 1,010,576</u> |

| <u>Business Type Activities</u> | <u>2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>2005</u> | <u>One Year</u> |
|-------------------------------------|----------------------|---------------------|----------------------|----------------------|---------------------|
| Bonds payable | | | | | |
| 1992 Pressurized Irrigation Bond | \$ 2,535,000 | | \$ 2,535,000 | \$ - | \$ - |
| 1995 Water Revenue Bond | 137,000 | | 137,000 | | |
| 1996 Water Revenue Bond | 2,872 | | 2,872 | | |
| 2001 Water Bond Anticipat. Note | 6,762,000 | | 6,762,000 | | |
| 2005 Water Rev & Refund. Bond | | 9,445,000 | | 9,445,000 | 155,000 |
| 1999 Electric Refunding Bond | 2,615,000 | | 615,000 | 2,000,000 | 640,000 |
| 2000 Sewer Bond | 6,967,000 | | 272,000 | 6,695,000 | 283,000 |
| Capital Lease | 681,256 | | 205,785 | 475,471 | 150,966 |
| Accrued Compensated Absence | 366,817 | | 26,915 | 339,902 | |
| Water Share Liability | 128,078 | 6,765 | | 134,843 | |
| Business-type Activ. Long term Debt | <u>\$ 20,195,023</u> | <u>\$ 9,451,765</u> | <u>\$ 10,556,572</u> | <u>\$ 19,090,216</u> | <u>\$ 1,228,966</u> |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 9 – ACCRUED CLOSURE AND POSTCLOSURE CARE COSTS

Payson City is closing landfill parcels on an on-going basis as each land parcel is completely filled. State and Federal laws and regulations require Payson to place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the cost to close the final cell through the end of the year. The estimated liability for landfill closure and post-closure care costs is \$840,325 as of June 30, 2005, which represents the cumulative amount reported to date based on the use of 62% of the estimated capacity of the landfill. The estimated total current cost of the landfill closure and post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill are performed by Payson City.

However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Payson City estimated the remaining life of the landfill to be 26 years. As of June 30, 2005, \$62,735 was charged to closure and post-closure expenses.

NOTE 10 - RETIREMENT PLAN

Plan Description. Payson City Corporation contributes to the Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Fire Fighters Retirement System which are for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System, and Fire Fighters Retirement System which are for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah, 84102 or by calling 1-800-365-8772.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 9 - RETIREMENT PLAN (CONTINUED)

Funding Policy. Payson City Corporation is required to contribute a percent of covered salary to the respective systems, 11.09% to the Noncontributory, and 19.08% to the Public Safety Noncontributory and 8.61% to the Firefighters Retirement System, respectively. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Payson City Corporation contributions to Noncontributory Retirement System for June 30, 2005, 2004 and 2003, were \$350,429, \$284,751 and \$231,148 respectively, and for the Public Safety retirement System the contributions for June 30, 2005, 2004, and 2003 were \$130,800, \$106,340 and \$72,658 respectively. For the Firefighter System the contribution for June 30, 2005 was \$5,714 and 2004 was \$4,929. The contribution was equal to the required contribution for each year.

401K Plan

The employees of the City also participate in a 401(K) deferred compensation plan. The amount of the employer contributions for the year ended June 30, 2005, 2004, and 2003 were \$5,135, \$3,935 and \$3,990 respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The City is involved in claims arising in the normal course of business. It is not possible to state the ultimate liability, if any, in these matters. In the opinion of management, such litigation will have no material effect on the financial operations of the City.

NOTE 11 - RESERVED FUND BALANCES

The City has reserved fund balance amounts for impact fees. The City has reserved net assets in the Proprietary Fund for unspent impact fees. These fees will be used to construct appropriate projects as designated by the impact fee ordinance. The City has reserved net assets in the Water Fund and fund balance in the Debt Service fund for the Debt Service requirement of the bonds acquired.

NOTE 12 - DEFICIT FUND BALANCES

The following funds had a deficit fund balance/retained earnings balance at June 30, 2005:

| | |
|--------------------------------------|---------------|
| Redevelopment Agency – Business Park | (\$2,886,668) |
| Redevelopment Agency – Down Town | (278,443) |
| Capital Projects | (327,910) |
| Golf Course | (555,409) |

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 13 - RISK MANAGEMENT

Payson City Corporation is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is unable to obtain insurance to cover the risk of losses related to torts at a cost it considers to be economically justifiable. The City joined together with other governments in the State of Utah to form the Utah Risk Management Mutual Association (URMMA), a public entity risk pool currently operating as a common risk management and insurance program for Utah State governments. The City pays an annual premium to URMMA for its tort liability insurance coverage.

The City continues to carry commercial insurance for all other risks of loss, including theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage of any of the past three fiscal years.

NOTE 14 – EQUITY IN JOINT VENTURE

Payson City is a member of Utah Associated Municipal Power Systems (UAMPS), a separate legal entity and political subdivision of the State of Utah, which was formed pursuant to the provision of the Interlocal cooperation act. UAMPS' membership consists of 31 municipalities, including one joint action agency and one electric service district. In addition, one contract purchaser of power is also supplied by UAMPS. UAMPS was formed to plan, finance, develop, acquire, construct, improve, operate, or maintain projects for the generation, transmission, and distribution of electric energy for the benefit of its members.

The City is a 19.99 percent participant in the operation of a joint agency project (Craig-Mona Transmission Project). As a participant in the project, Payson City is obligated for 19.99 percent of the debt service on approximately \$4,600,000 bonds outstanding at June 30, 2005, (or \$919,995) issued to finance the acquisition of the project. Under the terms of the agreement, the operational costs and debt service requirements are reflected in the cost of power purchased. No separate payments are made to UAMPS under this agreement.

Separate compiled financial statements for UAMPS may be obtained from the Manager of Finance at 2825 East Cottonwood Parkway, suite 200, Salt Lake City, Utah 84121-7077.

NOTE 15 – REDEVELOPMENT AGENCY

The Payson City Redevelopment Agencies were established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2005, the following activity occurred in the City's redevelopment agencies.

PAYSON CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2005

NOTE 15 – REDEVELOPMENT AGENCY (CONTINUED)

Business Park

| | |
|---|-----------|
| Tax increment collection from other taxing agencies for various project areas | \$184,433 |
| Proceeds from sale of assets | - |
| Outstanding loans to finance RDA projects | 809,366 |
| Amounts expended for site improvements and preparation costs | 3,411 |
| Amounts expended for administrative costs | 29,531 |

Down Town

| | |
|---|-----------|
| Tax increment collection from other taxing agencies for various project areas | \$152,461 |
| Proceeds from sale of assets | - |
| Outstanding loans to finance RDA projects | - |
| Amounts expended for site improvements and preparation costs | - |
| Amounts expended for administrative costs | 102,982 |

REQUIRED SUPPLEMENTARY INFORMATION

PAYSON CITY CORPORATION
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2005

| | Budgeted Amounts | | Variance with Final Budget Favorable (Unfavorable) |
|---|---------------------|---------------------|---|
| | Original | Final | |
| Revenues | | | |
| Taxes: | | | |
| Property Taxes | \$ 770,726 | \$ 704,000 | \$ 707,076 \$ 3,076 |
| General Sales Taxes | 1,750,000 | 1,760,000 | 1,826,194 66,194 |
| Motor Vehicle Taxes | 115,000 | 119,000 | 122,252 3,252 |
| Utility Taxes | 577,516 | 730,516 | 779,654 49,138 |
| Other Taxes | 104,000 | 311,238 | 294,687 (16,551) |
| Licenses and Permits | 428,000 | 336,600 | 355,728 19,128 |
| Intergovernmental | 623,035 | 763,303 | 772,337 9,034 |
| Charges for Services | 559,049 | 553,285 | 585,494 32,209 |
| Fines and Forfeitures | 147,500 | 151,300 | 149,276 (2,024) |
| Interest | 30,000 | 27,000 | 31,999 4,999 |
| Miscellaneous | 1,450 | 72,525 | 82,642 10,117 |
| Total Revenues | 5,106,276 | 5,528,767 | 5,707,339 178,572 |
| Expenditures | | | |
| Current: | | | |
| General Government: | | | |
| Administrative | 1,246,598 | 1,246,598 | 1,256,449 (9,851) |
| Planning and Zoning | - | 670,039 | 615,870 54,169 |
| Building Maintenance | 491,070 | 446,901 | 434,788 12,113 |
| Judicial | 148,548 | 160,758 | 155,946 4,812 |
| Non-Departmental | 863,390 | 177,149 | 154,936 22,213 |
| Total General Government | 2,749,606 | 2,701,445 | 2,617,989 83,456 |
| Public Safety: | | | |
| Police Administration | 1,592,815 | 1,593,415 | 1,589,989 3,426 |
| Fire Administration | 429,365 | 526,559 | 448,848 77,711 |
| Victims Advocate | 70,710 | 70,709 | 57,797 12,912 |
| Animal Control | 91,401 | 88,301 | 76,253 12,048 |
| Total Public Safety | 2,184,291 | 2,278,984 | 2,172,887 106,097 |
| Highways and Streets: | | | |
| Streets and Sidewalks | 380,486 | 380,486 | 376,437 4,049 |
| Class "C" Road | 420,000 | 155,474 | 66,550 88,924 |
| Total Highways and Streets | 800,486 | 535,960 | 442,987 92,973 |
| Economic Development: | | | |
| Senior Citizens | 92,954 | 91,253 | 80,872 10,381 |
| Total Economic Development | 92,954 | 91,253 | 80,872 10,381 |
| Parks and Recreation: | | | |
| Parks | 164,024 | 164,223 | 145,092 19,131 |
| Swimming Pool | 118,015 | 118,015 | 99,654 18,361 |
| Library | 283,451 | 290,295 | 268,588 21,707 |
| Ground Mowing | 198,523 | 198,523 | 177,928 20,595 |
| Recreation and Culture | 232,689 | 280,670 | 261,936 18,734 |
| Youth Sports | 143,000 | 143,000 | 136,893 6,107 |
| Adult Sports | 53,800 | 53,800 | 53,819 (19) |
| Snack Shack | 40,769 | 40,769 | 33,585 7,184 |
| Total Culture and Recreation | 1,234,271 | 1,289,295 | 1,177,495 111,800 |
| Cemetery | 86,592 | 101,591 | 85,485 16,106 |
| Debt Service: | | | |
| Interest and Fiscal Charges | - | 322,526 | 323,775 (1,249) |
| Capital Outlay | - | - | 383,436 (383,436) |
| Total Expenditures | 7,148,200 | 7,321,054 | 7,284,926 36,128 |
| Excess of Revenues Over (Under) Expenditures | (2,041,924) | (1,792,287) | (1,577,587) 214,700 |
| Other Financing Sources (Uses) | | | |
| Proceeds of Bonds | | | |
| Transfers In | 2,739,145 | 2,852,799 | 2,754,145 (98,654) |
| Transfers Out | (577,516) | (1,123,515) | (1,122,615) 900 |
| Total Other Financing Sources (Uses) | 2,161,629 | 1,729,284 | 1,631,530 (97,754) |
| Net Change in Fund Balance | 119,705 | (63,003) | 53,943 116,946 |
| Fund Balance Beginning of Year | 3,544,165 | 3,544,165 | 3,544,165 - |
| Fund Balance End of Year | \$ 3,663,870 | \$ 3,481,162 | \$ 3,598,108 \$ 116,946 |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
Redevelopment Agency
Business Park
For the Year Ended June 30, 2005

| | Budgeted Amounts | | Actual Totals | Variance with Final Budget - Favorable (Unfavorable) |
|---|-----------------------|-----------------------|-----------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property Taxes | \$ 250,000 | \$ 184,433 | \$ 184,433 | \$ - |
| Total Revenues | 250,000 | 184,433 | 184,433 | - |
| EXPENDITURES | | | | |
| Economic Development | 50,000 | 54,000 | 29,531 | 24,469 |
| Debt Service | 120,000 | 127,000 | 52,009 | 74,991 |
| Capital Outlay | 80,000 | 3,433 | 3,411 | 22 |
| Total Expenditures | 250,000 | 184,433 | 84,951 | 99,482 |
| Excess (deficit) of revenues over (under) expenditures | - | - | 99,482 | 99,482 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of Fixed Assets | - | - | - | - |
| Net Change in Fund Balance | - | - | 99,482 | 99,482 |
| Fund balances - beginning | (2,986,150) | (2,986,150) | (2,986,150) | - |
| Fund balances - ending | <u>\$ (2,986,150)</u> | <u>\$ (2,986,150)</u> | <u>\$ (2,886,668)</u> | <u>\$ 99,482</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

PAYSON CITY

Ratings for the City's Road System For the Year Ended June 30, 2005

As allowed by GASB Statement 34, the City has adopted the modified approach for reporting, where infrastructure assets are not depreciated, and maintenance and preservation costs are expensed. The City capitalizes costs related to new construction or major replacements under the modified approach.

In order to utilize the modified approach, the City is required to:

1. Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
2. Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
3. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level disclosed by the City.
4. Document that the infrastructure assets are being preserved approximately at, or above the condition level established by the City.

The City has used an inventory system that evaluates the Condition and Safety of its roads. This system rates good roads with a high value and poor roads with a low value by road type. Roads are re-inventoried each year to determine current condition and safety needs. Roads in each road type with low values are then targeted for maintenance in the coming budget year.

On June 30, 2005, the City has 66 center lane miles of paved road.

It is the City's policy to maintain its roads at or above the average rating for each class of roads.

Over the last five reporting years, the estimated amounts needed and actual expenditures utilized to maintain and preserve the City's road system are as follows (capital expenditures are not included):

| <u>Year</u> | <u>Budgeted</u> | <u>Expenditures</u> |
|-------------|-----------------|---------------------|
| 2001 | \$435,680 | \$330,456.68 |
| 2002 | 741,500 | 454,791.00 |
| 2003 | 585,500 | 683,766.53 |
| 2004 | 226,383 | 223,119.34 |
| 2005 | 372,986 | 368,768.00 |

SUPPLEMENTAL INFORMATION

PAYSON CITY CORPORATION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

| | Special Revenue Funds | | | | | | | Total Nonmajor Governmental Funds |
|--|-----------------------|---------------------|-----------------------------|-----------------|------------------|-------------------|-------------------|--|
| | RDA Downtown | Impact Fee Parks | Impact Fee Public Safety | CDBG Grant | Debt Service | Perpetual Care | Revolving Loan | |
| Assets | | | | | | | | |
| Due From Other Funds | \$ - | \$ 26,794 | \$ 6,480 | \$ 4,709 | \$ 10,536 | \$ - | \$ 44,574 | \$ 93,093 |
| Notes Receivable | | | | | | | 96,784 | 96,784 |
| Restricted Assets: | | | | | | | | |
| Cash and Cash Equivalents | - | 375,099 | 115,835 | - | - | 200,908 | 211,506 | 903,348 |
| Total Assets | \$ - | \$ 401,893 | \$ 122,315 | \$ 4,709 | \$ 10,536 | \$ 200,908 | \$ 352,864 | \$ 1,093,225 |
| Liabilities | | | | | | | | |
| Accrued Liabilities | \$ - | \$ 5,890 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,890 |
| Due To Other Funds | 278,443 | - | - | - | - | 486 | - | 278,929 |
| Total Liabilities | 278,443 | 5,890 | 0 | 0 | 0 | 486 | 0 | 284,819 |
| Fund Balances | | | | | | | | |
| Reserved for: | | | | | | | | |
| Debt Service | - | - | - | - | 10,536 | | | 10,536 |
| Impact Fees | - | 396,003 | 122,315 | - | - | | | 518,318 |
| Grant Funds | - | - | - | 4,709 | - | | | 4,709 |
| Unreserved: | | | | | | | | |
| Undesignated (Deficit), Reported in: | | | | | | | | |
| Permanent Fund | | | | | | 200,422 | 352,864 | 553,286 |
| Special Revenue Funds | (278,443) | - | - | - | | | | (278,443) |
| Total Fund Balances (Deficits) | (278,443) | 396,003 | 122,315 | 4,709 | 10,536 | 200,422 | 352,864 | 808,406 |
| Total Liabilities and Fund Balances | \$ - | \$ 401,893 | \$ 122,315 | \$ 4,709 | \$ 10,536 | \$ 200,908 | \$ 352,864 | \$ 1,093,225 |

PAYSON CITY CORPORATION
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

| | Special Revenue Funds | | | | | | | Total Nonmajor Governmental Funds |
|---|-----------------------|---------------------|-----------------------------|-----------------|------------------|-------------------|-------------------|--|
| | RDA Downtown | Impact Fee Parks | Impact Fee Public Safety | CDBG Grant | Debt Service | Perpetual Care | Revolving Loan | |
| Revenues | | | | | | | | |
| Taxes: | | | | | | | | |
| Property | \$ 152,461 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 152,461 |
| Intergovernmental | - | - | - | 43,456 | - | - | - | 43,456 |
| Special Assessments | - | - | - | - | 131,870 | - | - | 131,870 |
| Charges for Services | - | - | - | - | - | 26,788 | - | 26,788 |
| Interest | - | 6,339 | 2,000 | - | - | 4,688 | 14,674 | 27,701 |
| Total Revenues | 152,461 | 6,339 | 2,000 | 43,456 | 131,870 | 31,476 | 14,674 | 382,276 |
| Expenditures | | | | | | | | |
| Current: | | | | | | | | |
| Highways and Streets | - | - | - | 0 | - | - | - | - |
| Economic Development | 102,982 | - | - | - | - | - | - | 102,982 |
| Debt Service: | | | | | | | | |
| Principal Retirement | 20,305 | - | - | - | 91,000 | - | - | 111,305 |
| Interest and Fiscal Charges | - | - | - | - | 38,584 | - | - | 38,584 |
| Capital Outlay: | | | | | | | | |
| Highways and Streets | - | - | - | 5,786 | - | - | - | 5,786 |
| Parks and Recreation | - | 72,081 | - | - | - | - | - | 72,081 |
| Economic Development | - | - | 23,000 | - | 2,421 | - | - | 25,421 |
| Total Expenditures | 123,287 | 72,081 | 23,000 | 5,786 | 132,005 | - | - | 356,159 |
| Excess of Revenues Over (Under) Expenditures | 29,174 | (65,742) | (21,000) | 37,670 | (135) | 31,476 | 14,674 | 26,117 |
| Other Financing Sources (Uses) | | | | | | | | |
| Impact Fees | - | 354,800 | 78,165 | - | - | - | - | 432,965 |
| Impact Fees | - | - | - | - | - | (23,830) | - | (23,830) |
| Total Other Financing Sources (Uses) | - | 354,800 | 78,165 | - | - | (23,830) | - | 409,135 |
| Net Change in Fund Balances | 29,174 | 289,058 | 57,165 | 37,670 | (135) | 7,646 | 14,674 | 435,252 |
| Fund Balances (Deficits) Beginning of Year - | (307,617) | 106,945 | 65,150 | (32,961) | 10,671 | 192,776 | 338,190 | 373,154 |
| Fund Balances (Deficits) End of Year | \$ (278,443) | \$ 396,003 | \$ 122,315 | \$ 4,709 | \$ 10,536 | \$ 200,422 | \$ 352,864 | \$ 808,406 |

PAYSON CITY CORPORATION
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2005

| | Business Type Activities - Enterprise Funds | | | | |
|---|---|---------------------|---------------------|-------------------|---------------------|
| | Solid Waste | Golf Course | Strom Drain | Ambulance | Total |
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 107,926 | \$ - | \$ 94,230 | \$ 124,398 | \$ 326,554 |
| Accounts Receivable (Net of Allowance for Uncollectables) | 220,045 | - | 73,423 | 63,260 | 356,728 |
| Due From Other Funds | 375,468 | - | 86,368 | 125,685 | 587,521 |
| Prepaid Items | - | - | - | - | - |
| Total Current Assets | 703,439 | - | 254,021 | 313,343 | 1,270,803 |
| Noncurrent Assets: | | | | | |
| Restricted Assets: | | | | | |
| Cash and Cash Equivalents | 455,350 | - | - | - | 455,350 |
| Bond Issuance Costs | - | - | - | - | - |
| Less Accumulated Amortization | - | - | - | - | - |
| Capital Assets: | | | | | |
| Water Shares | - | - | - | - | - |
| Land | 55,123 | - | - | - | 55,123 |
| Buildings | 130,136 | 230,951 | 152,370 | - | 513,457 |
| Improvements | 358,290 | 1,817,318 | 876,278 | 10,254 | 3,062,140 |
| Machinery and Equipment | 1,372,894 | 939,943 | 110,500 | 314,263 | 2,737,600 |
| Construction in Progress | - | - | - | - | - |
| Less Accumulated Depreciation | (933,285) | (2,056,183) | (167,426) | (294,997) | (3,451,891) |
| Total Capital Assets, Net | 983,158 | 932,029 | 971,722 | 29,520 | 2,916,429 |
| Total Noncurrent Assets | 1,438,508 | 932,029 | 971,722 | 29,520 | 3,371,779 |
| Total Assets | 2,141,947 | 932,029 | 1,225,743 | 342,863 | 4,642,582 |
| Liabilities | | | | | |
| Current Liabilities: | | | | | |
| Accrued Liabilities | 7,664 | 18,297 | 607 | 2,111 | 28,679 |
| Due to Other Funds | - | 1,309,191 | - | - | 1,309,191 |
| Compensated Absences Payable | 39,386 | 51,102 | 22,000 | - | 112,488 |
| Performance Bond | - | - | - | - | - |
| Matured Bonds Payable | - | - | - | - | - |
| Matured Interest Payable | - | - | - | - | - |
| Capital Leases Payable | 94,963 | 56,003 | - | - | 150,966 |
| Total Current Liabilities | 142,013 | 1,434,593 | 22,607 | 2,111 | 1,601,324 |
| Current Liabilities Payable from Restricted Assets: | | | | | |
| Customer Deposits Payable | - | - | - | - | - |
| Total Current Liabilities Payable from Restricted Assets | - | - | - | - | - |
| Long-Term Liabilities: | | | | | |
| Revenue Bonds Payable (net of current portion) | - | - | - | - | - |
| Notes Payable (net of current portion) | - | - | - | - | - |
| Capital Leases Payable (net of current portion) | 271,660 | 52,845 | - | - | 324,505 |
| Closure and Postclosure Liability | 840,325 | - | - | - | 840,325 |
| Water Share Liability | - | - | - | - | - |
| Total Long-Term Liabilities | 1,111,985 | 52,845 | - | - | 1,164,830 |
| Total Liabilities | 1,253,998 | 1,487,438 | 22,607 | 2,111 | 2,766,154 |
| Net Assets | | | | | |
| Invested in Capital Assets, Net of Related Debt | 616,535 | 823,181 | 971,722 | 29,520 | 2,440,958 |
| Restricted for: | | | | | |
| Bond and Lease Requirements | - | - | - | - | - |
| Landfill Closure Costs | 455,350 | - | - | - | 455,350 |
| Impact Fees | - | - | - | - | - |
| Unrestricted | (183,936) | (1,378,590) | 231,414 | 311,232 | (1,019,880) |
| Total Net Assets | \$ 887,949 | \$ (555,409) | \$ 1,203,136 | \$ 340,752 | \$ 1,876,428 |

PAYSON CITY CORPORATION
Combining Statement of Revenues,
Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2005

| | Business Type Activities - Enterprise Funds | | | | |
|--|---|----------------|----------------|------------|--------------|
| | Solid Waste | Golf Course | Storm Drain | Ambulance | Total |
| Operating Revenues | | | | | |
| Charges for Services | \$ 1,373,224 | \$ 534,858 | \$ 502,938 | \$ 264,634 | \$ 2,675,654 |
| Miscellaneous | 40,095 | 0 | 17,627 | 0 | 57,722 |
| Total Operating Revenues | 1,413,319 | 534,858 | 520,565 | 264,634 | 2,733,376 |
| Operating Expenses | | | | | |
| Costs of Sales and Services | 403,865 | 427,696 | 143,604 | 132,808 | 1,107,973 |
| Maintenance Operations and Contractual Services | 215,988 | 114,446 | 25,204 | 6,809 | 362,447 |
| Materials and Supplies | 27,737 | 54,466 | 22,609 | 27,439 | 132,251 |
| Depreciation | 131,638 | 172,517 | 13,782 | 29,521 | 347,458 |
| Amortization | - | - | - | - | - |
| Total Operating Expenses | 779,228 | 769,125 | 205,199 | 196,577 | 1,950,129 |
| Operating Income (Loss) | 634,091 | (234,267) | 315,366 | 68,057 | 783,247 |
| Non-Operating Revenues (Expenses) | | | | | |
| Interest Income | 10,930 | 0 | 0 | 0 | 10,930 |
| Impact Fees | - | - | - | - | - |
| Grant Revenue | - | - | - | 6,799 | 6,799 |
| Gain (Loss) on Sale of Fixed Assets | 82,244 | - | - | - | 82,244 |
| Interest and Fiscal Charges | (20,048) | (4,749) | 0 | 0 | (24,797) |
| Total Non-Operating Revenues (Expenses) | 73,126 | (4,749) | - | 6,799 | 75,176 |
| Income (Loss) before Capital Contributions and Transfers | 707,217 | (239,016) | 315,366 | 74,856 | 858,423 |
| Capital Contributions | - | - | 126,590 | - | 126,590 |
| Transfers In | - | - | - | - | - |
| Transfers Out | (752,615) | (22,445) | (15,000) | (23,000) | (813,060) |
| Change in Net Assets | (45,398) | (261,461) | 426,956 | 51,856 | 171,953 |
| Net Assets Beginning of Year | 933,347 | -293,948 | 776,180 | 288,896 | 1,704,475 |
| Net Assets End of Year | \$ 887,949 | \$ (555,409) | \$ 1,203,136 | \$ 340,752 | \$ 1,876,428 |

PAYSON CITY CORPORATION
Combining Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

| | Business Type Activities - Enterprise Funds | | | | |
|---|--|------------------------|------------------------|-------------------|---------------------|
| | Solid Waste | Golf Course | Storm Drain | Ambulance | Total |
| Cash Flows from Operating Activities | | | | | |
| Receipts from Customers and Users | \$1,412,504 | \$534,858 | 513,779 | \$267,265 | \$ 2,728,406 |
| Payments to Employees for Services | (263,375) | (275,690) | (91,707) | (86,138) | (716,910) |
| Payments for Goods and Services | (314,678) | (153,222) | (58,920) | (59,485) | (586,305) |
| Other Cash Payments | - | - | - | - | - |
| Net Cash Provided by (Used in) Operating Activities | 834,451 | 105,946 | 363,152 | 121,642 | 1,425,191 |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Operating Grants Received | - | - | - | 6,799 | 6,799 |
| Transfers to Other Funds | (752,615) | (22,445) | (15,000) | (23,000) | (813,060) |
| Transfers from Other Funds | - | - | - | - | - |
| Net Cash Provided by (Used in) Noncapital Financing Activities | (752,615) | (22,445) | (15,000) | (16,201) | (806,261) |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Proceeds from Sale of Revenue Bonds | - | - | - | - | - |
| Impact Fees | - | - | - | - | - |
| Proceeds from Capital Leases | - | - | - | - | - |
| Proceeds from Sale of Assets | 82,244 | - | - | - | 82,244 |
| Principal Paid on Revenue Bonds | - | - | - | - | - |
| Interest Paid on Revenue Bonds | - | - | - | - | - |
| Principal Paid on Capital Leases | (127,032) | (78,752) | - | - | (205,784) |
| Interest Paid on Capital Leases | (20,048) | (4,749) | - | - | (24,797) |
| Payments for Capital Acquisitions | - | - | (276,416) | (6,935) | (283,351) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | (64,836) | (83,501) | (276,416) | (6,935) | (431,688) |
| Cash Flows from Investing Activities | | | | | |
| Interest Income Received | 10,930 | - | - | - | 10,930 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 27,930 | - | 71,736 | 98,506 | 198,172 |
| Cash and Cash Equivalents Beginning of Year | 535,346 | - | 22,494 | 25,892 | 583,732 |
| Cash and Cash Equivalents End of Year | \$ 563,276 | \$ - | \$ 94,230 | \$ 124,398 | \$ 781,904 |
| Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities | | | | | |
| Operating Income (Loss) | \$ 634,091 | \$ (234,267) | \$ 315,366 | \$ 68,057 | \$ 783,247 |
| Adjustments: | | | | | |
| Depreciation | 131,638 | 172,517 | 13,782 | 29,521 | 347,458 |
| Amortization | - | - | - | - | - |
| (Increase) Decrease in Assets: | | | | | |
| Accounts Receivable | (815) | - | (6,786) | 2,631 | (4,970) |
| Allowance for Uncollectable Accounts | - | - | - | - | - |
| Due From Other Funds | 8,080 | - | 41,096 | 21,032 | 70,208 |
| Increase (Decrease) in Liabilities: | | | | | |
| Accrued Liabilities | (2,267) | (95) | (1,235) | 401 | (3,196) |
| Customer Deposits | - | - | - | - | - |
| Performance Bond | - | - | - | - | - |
| Compensated Absences Payable | 989 | (10,347) | 929 | - | (8,429) |
| Water Share Liability | - | - | - | - | - |
| Accrued Interest | - | - | - | - | - |
| Due to Other Funds | - | 178,138 | - | - | 178,138 |
| Closure and Postclosure Care | 62,735 | - | - | - | 62,735 |
| Net Cash Provided by (Used in) Operating Activities | \$ 834,451 | \$ 105,946 | \$ 363,152 | \$ 121,642 | \$ 1,425,191 |

GOVERNMENT AUDITING STANDARDS REPORT
STATE COMPLIANCE REPORT

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and City Council
City of Payson, Utah

December 14, 2005

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City as of and for the year ended June 30, 2005, which collectively comprise Payson City's basic financial statements and have issued our report thereon dated December 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Payson City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payson City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However we noted certain matters that we reported to management of Payson City in a separate letter dated December 14, 2005.

This report is intended solely for the information of management, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

Honorable Mayor and City Council
City of Payson, Utah

December 14, 2005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payson City for the year ended June 30, 2005, and have issued our report thereon dated December 14, 2005. As part of our audit, we have audited Payson City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

Our audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Compliance Requirements
Impact Fees and Other Development Fees
Justice Court
Department of Commerce
Asset Forfeiture

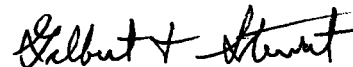
The management of Payson City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

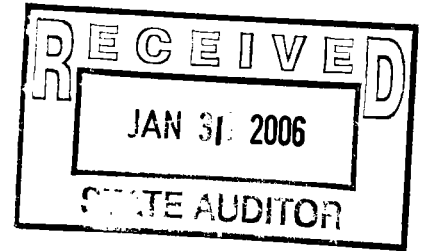
The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Payson City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

This report is intended solely for the information of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants



PAYSON CITY
MANAGEMENT LETTER

JUNE 30, 2005

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
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December 14, 2005

Payson City
Payson, UT

We have audited the financial statements of Payson City for the year ended June 30, 2005 and have issued our report thereon dated December 14, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Payson City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Payson City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Payson City are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Payson City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Payson City's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing our audit.

Utah State Legal Compliance Findings – Current Year

05-1 General Compliance – Other Compliance

Finding: Utah State law states that the maximum fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund. We noted that the general fund was in excess of the 18%

Recommendation: We recommend that the City make necessary budget adjustments to bring the City into Compliance with State law.

City's Response: We concur with the auditor's recommendations and have already budgeted items in the coming year for capital projects within the City.

05-2 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2005.

| | |
|--------------------------------------|---------------|
| Redevelopment Agency – Business Park | (\$2,886,668) |
| Redevelopment Agency – Down Town | (\$ 278,443) |
| Capital Projects Fund | (\$ 327,910) |
| Golf Course Fund | (\$ 555,409) |

Recommendation: We recommend that the city make necessary budget adjustments including transfers to bring the respective fund into compliance with state law.

City's Response: We concur with the auditor's recommendations and will make the necessary adjustments.

05-3 General Compliance – Department of Commerce

Finding: Utah State Law requires each municipality to file a quarterly report indicating the total amounts collected for building permits. These reports are to be filed no later than 30 days following the end of each quarter. We noted that the reports were not filed with in the allotted time frame.

Recommendation: We recommend that the City start filing the required reports in the time mandated by State law.

City's Response: We concur with the auditor's recommendations.

Utah State Legal Compliance – Prior Year:

04-1 General Compliance – Other Compliance

Finding: Utah State law states that the maximum fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund. We noted that the general fund was in excess of the 18%

Recommendation: We recommend that the City make necessary budget adjustments to bring the City into Compliance with State law.

Current Status: See current year finding 05-1.

04-2 General Compliance – Other Compliance

Finding: State law prohibits any fund from maintaining a deficit equity balance. We noted the following funds had negative fund balances as of June 30, 2005.

| | |
|--------------------------------------|---------------|
| Redevelopment Agency – Business Park | (\$2,986,150) |
| Redevelopment Agency – Down Town | (\$ 307,617) |
| Capital Projects Fund | (\$ 376,849) |
| CDBG Fund | (\$ 32,961) |
| Golf Course Fund | (\$ 293,948) |

Recommendation: We recommend that the city make necessary budget adjustments including transfers to bring the respective fund into compliance with state law.

Current Status: See current year finding 05-2.

04-3 General Compliance – Cash Management

Finding: Utah State Law requires every public treasurer shall secure a fidelity bond, based on the previous years budgeted gross revenues. We noted the City Treasurer's Bond was not at the required level.

Recommendation: We recommend that the City acquire enough Treasurer's Bond coverage to be in compliance with State Law.

Current Status: City is in compliance.

04-4 General Compliance – Department of Commerce

Finding: Utah State Law requires each municipality to file a quarterly report indicating the total amounts collected for building permits. These reports are to be filed no later than 30 days following the end of each quarter. We noted that the reports were not filed within the allotted time frame.

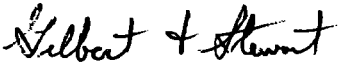
Recommendation: We recommend that the City start filing the required reports in the time mandated by State Law.

Current Status: See current year finding 05-3.

We wish to express our appreciation to the city personnel for the friendly and enthusiastic help extended to us during the course of our examination.

This information is intended solely for the use of The Payson City and the management of the Payson City, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,


GILBERT & STEWART
Certified Public Accountants